2007

ANNUAL
REPORT

Coachman Insurance Company

Coachman

Responsibility for Financial Statements

The financial statements are the responsibility of Management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of Management, the financial statements fairly reflect the financial position, results of operations and cash flows of Coachman Insurance Company (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of Management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities and to issue a report thereon to the shareholders and regulatory authorities. The valuation is carried out in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of Management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The financial statements have been examined and approved by the Board of Directors. An Audit Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without Management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

KPMG have been appointed external auditors. Their responsibility is to report to the shareholders and regulatory authorities regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and his report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.

Don Thompson

Jon Schubert
President

Don Thompson
Chief Financial Officer

February 19, 2008

Actuary's Report

To the Shareholder of Coachman Insurance Company

I have valued the policy liabilities of Coachman Insurance Company for its statement of financial position at December 31, 2007 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.

Richard Gauthier
PricewaterhouseCoopers
Fellow, Canadian Institute of Actuaries

February 19, 2008

Auditors' Report

To the Shareholder of Coachman Insurance Company

We have audited the statement of financial position of Coachman Insurance Company as at December 31, 2007 and the statements of operations, comprehensive income, changes in shareholder's equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada

February 19, 2008

Statement of Financial Position

December 31

	2007	2006
	(thousands of $)	
Assets		
Cash and cash equivalents (note 3)	$ 1,393	$ 426
Accounts receivable (note 4)	12,500	15,068
Deferred policy acquisition costs	2,615	2,444
Reinsurers' share of unearned premiums (note 7)	493	481
Future income taxes (note 12)	1,948	3,131
Investments (note 5)	72,679	73,816
Unpaid claims recoverable from reinsurers (notes 7 and 8)	25,717	24,544
Property, plant and equipment (note 6)	10	17
	$117,355	$119,927
Liabilities		
Accounts payable	$ 3,294	$ 6,648
Amounts due to reinsurers (note 7)	328	655
Unearned reinsurance commissions	80	66
Unearned premiums (note 16)	12,280	11,902
Provision for unpaid claims (note 8)	66,557	72,991
	82,539	92,262
Shareholder's equity		
Share capital (note 9)	1,000	1,000
Contributed surplus	30,600	30,600
Retained earnings (deficit)	3,228	(3,935)
Accumulated other comprehensive loss (note 2)	(12)	–
	34,816	27,665
	$117,355	$119,927

Commitments and contingencies (note 17)
(see accompanying notes)
On behalf of the Board:

Jon Schubert – Director

Randy Heise – Director

Statement of Operations

year ended December 31

	2007	2006
	(thousands of $)	
Gross premiums written	$ 26,395	$ 29,134
Net premiums written	$ 23,183	$ 26,064
Net premiums earned (note 7)	$ 22,836	$ 23,352
Claims incurred (note 7)	12,819	8,091
Commissions (note 7)	4,205	4,440
Administrative expenses	2,633	2,695
Premium taxes (note 7)	817	824
Facility Association participation (note 16)	79	(123)
Total claims and expenses	20,553	15,927
Underwriting profit	2,283	7,425
Investment earnings (note 10)	4,391	4,073
Income before deficiency (excess) from service agreement and income taxes	6,674	11,498
Deficiency (excess) from service agreement (note 11)	(1,532)	1,588
Income before income taxes	8,206	9,910
Income tax expense (recovery) (note 12)	1,189	(442)
Net income	$ 7,017	$ 10,352

(see accompanying notes)

Statement of Comprehensive Income

year ended December 31	2007
	(thousands of $)
Net income	$ 7,017
Other comprehensive loss, net of income taxes:	
Unrealized losses on available for sale financial assets arising during the year	(834)
Income tax recovery on unrealized losses	301
	(533)
Reclassification for realized losses on sale of investments included in net income	92
Net income tax recovery on losses	(33)
	59
Other comprehensive loss	(474)
Comprehensive income	$ 6,543

(see accompanying notes)

Statement of Changes in Shareholder's Equity

year ended December 31

	2007	2006
	(thousands of $)	
Share capital		
Balance, end of period	$ 1,000	$ 1,000
Contributed surplus		
Balance, end of period	$ 30,600	$ 30,600
Retained earnings (deficit)		
Balance, beginning of period	$ (3,935)	$ (14,287)
Change in accounting policy (note 2)	146	–
Net income	7,017	10,352
Balance, end of period	$ 3,228	$ (3,935)
Accumulated other comprehensive income		
Balance, beginning of period	$ –	$ –
Change in accounting policy (note 2)	462	-
Other comprehensive loss	(474)	-
Balance, end of period	$ (12)	$ –
Total shareholder's equity	$ 34,816	$ 27,665

(see accompanying notes)

Statement of Cash Flows

year ended December 31	2007	2006
	(thousands of $)	
Cash provided by (used for):		
Operating activities		
Net income	$ 7,017	$ 10,352
Non-cash items:		
Net realized loss (gain) on sale of investments	92	(112)
Amortization	37	402
Future income taxes	1,189	(442)
Change in non-cash operating items (note 13)	(8,511)	(7,681)
	(176)	2,519
Investing activities		
Purchase of investments	(129,857)	(139,435)
Proceeds on sale of investments	131,002	133,436
Purchase of property, plant and equipment	(2)	(7)
	1,143	(6,006)
Increase (decrease) in cash and cash equivalents	967	(3,487)
Cash and cash equivalents, beginning of year	426	3,913
Cash and cash equivalents, end of year	$ 1,393	$ 426

(see accompanying notes)

December 31, 2007

1. STATUS OF THE CORPORATION

Coachman Insurance Company (the Corporation) was incorporated under the laws of Ontario on June 12, 1979. The Corporation holds an Ontario provincial insurers' licence under the *Insurance Act* (Ontario) and is licensed to conduct business in Ontario.

The Corporation's automobile insurance premium rates are regulated by provincial government authority. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. Accordingly, a significant portion of the Corporation's revenue is subject to regulatory approvals.

As a wholly-owned subsidiary of SGI CANADA Insurance Services Ltd., the financial results of the Corporation are included in its consolidated financial results.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles. The following accounting policies are considered to be significant:

Change in Accounting Policies

Effective January 1, 2007, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, Comprehensive Income, and Section 3855, Financial Instruments – Recognition and Measurement.

Section 1530 requires presentation of a Statement of Comprehensive Income, as included in these financial statements. Comprehensive income is comprised of net income and other comprehensive income (OCI). OCI represents changes in shareholders' equity during a period arising from transactions and other events with non-owner sources, other than net income. The change in OCI is recorded as accumulated other comprehensive income (AOCI) on the Statement of Financial Position. The Corporation's OCI is comprised of the change in unrealized gains and losses on those investments designated as available for sale. Those unrealized gains and losses are included in AOCI on the Statement of Financial Position. When the underlying investments are subsequently sold or written down, the resulting realized gain or loss is released from AOCI into investment earnings in the Statement of Operations.

Section 3855 establishes standards for recognizing and measuring financial assets and financial liabilities. The measurement basis depends on whether the financial instrument has been classified as held for trading, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial instruments classified as held for trading are measured at fair value and changes in fair value are recognized in net income. Financial instruments classified as available for sale are measured at fair value with changes in fair value recorded in OCI, however, unrealized losses considered other than temporary continue to be recognized as a decrease to net income. The criteria to determine whether an unrealized loss is considered other than temporary, has not changed under the new section. Financial instruments designated as held to maturity, loans and receivables or other financial liabilities are measured at amortized cost, using the effective interest rate method.

Prior to January 1, 2007, the Corporation amortized the purchase discount or premium from its investments by utilizing the straight-line method over the expected life of the investment. By adopting Section 3855, as of January 1, 2007, the Corporation is now using the effective interest rate method to calculate amortization.

The Corporation has designated its cash and cash equivalents and investments as available for sale. Accounts receivable were designated as loans and receivables. Accounts payable were designated as other financial liabilities. Unpaid claims recoverable from reinsurers, amounts due to reinsurers and the provision for unpaid claims are exempt from Section 3855. The Corporation has no financial instruments designated as held for trading or held to maturity.

The adoption of these new sections was applied as of January 1, 2007 without restatement of comparative figures. The effect of the adoption at January 1, 2007 was to increase the carrying value of investments from $73,816,000 to $74,540,000, increase AOCI by $462,000 and decrease the future income taxes asset by $262,000. As a result of the changes in the carrying value of investments, the discount rate used in the actuarial determination of the provision for unpaid claims also changed. The impact of this change was a decrease to the provision for unpaid claims of $146,000 with an offsetting adjustment to opening retained earnings of $146,000.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation process is related to the actuarial determination of the provision for unpaid claims (note 8).

Investments

All investments are carried at fair value. The fair value of short-term investments is based on cost, which approximates fair value due to the immediate or short-term nature of these financial instruments. The fair value of bonds and debentures is determined based on quoted market values, based on the latest bid prices. The fair value of pooled equity funds is based on the quoted market values of the underlying investments, based on the latest bid prices.

The Corporation records its investment purchases and sales on a trade-date basis, being the date when the transactions are entered into.

Investment earnings

The Corporation recognizes interest and premium financing revenue as earned, dividends when declared, pooled fund revenue when distributions are declared, and investment gains and losses when realized.

Interest revenue includes amortization of any premium or discount recognized at date of purchase of the security. Amortization is calculated using the effective interest rate method. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base. Interest is generally receivable on a semi-annual basis.

Transaction costs are included in the acquisition cost of individual investments. Direct investment expenses, such as external custodial, investment management and investment consultant expenses, are recorded against investment earnings.

When the fair value of an investment falls below its cost, and the decline is determined to be other than temporary, a loss equivalent to the difference between cost and fair value is recorded in investment earnings, as an investment write down.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the year-end date. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized foreign exchange gains and/or losses, arising on investments designated as available for sale, are included in other comprehensive income until realized, at which time they are reclassified from accumulated other comprehensive income to investment earnings. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current year.

Premiums

Premiums written are recognized as revenue evenly over the terms of the related policies, no longer than 12 months. Unearned premiums represent the portion of premiums written relating to the unexpired terms of policies in force.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. The estimate includes the cost of reported claims, and claims incurred but not reported, and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts.

Unpaid claims recoverable from reinsurers are estimated in a manner consistent with the method used for determining the provision for unpaid claims.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes payable for the current year. Future income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities, as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized in income, in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax asset, if it is more likely than not that the asset will not be realized.

Cash and cash equivalents
Cash and cash equivalents consist of money market investments with a maturity of 90 days or less from the date of acquisition, and are presented net of cash on hand less outstanding cheques.

Deferred policy acquisition costs
Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expenses over the term of the insurance policies to which they relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums, after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Property, plant and equipment
Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the asset is placed in service, over the estimated useful lives of the assets as follows:

Computer hardware, system costs and other equipment	3 – 5 years

Future accounting policy changes
The CICA issued three new accounting standards that became effective for the Corporation on January 1, 2008. These standards are Handbook Section 1535, Capital Disclosures (Section 1535), Handbook Section 3862, Financial Instruments – Disclosures (Section 3862), and Handbook Section 3863, Financial Instruments – Presentation (Section 3863).

Section 1535 requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Corporation's objectives, policies and processes for managing capital.

Section 3862 and Section 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation. The new standards do not have a significant impact on the presentation requirements, however, place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

3. CASH AND CASH EQUIVALENTS

	(thousands of $)	
	2007	2006
Treasury bills	$ 1,490	$ 798
Cash on hand, net of outstanding cheques	(97)	(372)
Total cash and cash equivalents	$ 1,393	$ 426

The average effective interest rate on the treasury bills is 4.0% (2006 – 4.4%).

4. ACCOUNTS RECEIVABLE

	(thousands of $) 2007	2006
Due from insureds	$ 9,185	$ 7,356
Facility Association receivable (note 17)	1,548	1,657
Accrued investment income	638	595
Due from reinsurers	556	998
Due from brokers	372	253
Investment proceeds receivable	–	3,966
Other	201	243
Total accounts receivable	$ 12,500	$ 15,068

Included in due from insureds is $6,926,000 (2006 - $6,026,000) of financed premiums receivable, which represents the portion of policyholders' monthly premium payments, that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment earnings that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized over the period of the policy.

5. INVESTMENTS

As a result of adoption of CICA Handbook Section 3855 (note 2), the basis for the carrying value for investments has changed effective January 1, 2007.

The carrying value of the Corporation's investments is as follows:

	(thousands of $)		
	December 31, 2007	January 1, 2007	December 31, 2006
Short-term investments	$ 8,934	$ 4,466	$ 4,466
Bonds and debentures	56,283	61,145	61,102
Pooled equity funds			
– Canadian	4,506	5,234	4,937
– United States	1,448	1,768	1,659
– Non-North American	1,508	1,927	1,652
Total investments	$ 72,679	$ 74,540	$ 73,816

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

(i)Short-term investments:
Short-term investments are comprised of treasury bills with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 4.4% (2006 – 4.3%) and an average remaining term to maturity of 141 days (2006 – 109 days). The Corporation's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the combined short-term investment and bond portfolios.

(ii)Bonds and debentures:
The Corporation's investment policy states that the minimum quality standard for purchase of bonds and debentures is BBB, as rated by a recognized credit rating service.

The Corporation's investment policy limits its holdings for any one issuer, other than Government of Canada bonds or a Canadian province, to 10% of the market value of the combined bond and short-term portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio. No more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers and all bonds must be denominated in Canadian dollars.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

(thousands of $)

	2007		2006	
Term to maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
After one through five	$ 29,783	4.4%	$37,485	4.5%
Canadian provincial & municipal:				
After one through five	8,654	5.5%	7,423	5.5%
Canadian corporate:				
One or less	1,633	4.5%	–	–
After one through five	10,665	5.0%	14,180	4.6%
After five	5,548	4.5%	2,014	4.3%
Total bonds and debentures	$ 56,283		$ 61,102	

Investments with a carrying value of $53,000 (2006 - $50,000) are held in trust as required by regulatory authorities.

(iii)Pooled equity funds:
The Corporation owns units in Canadian, United States and non-North American pooled equity funds, that have no fixed distribution rate. Fund returns are based on the success of the fund managers.

(iv)Unrealized loss positions:
The following table presents available for sale investments with unrealized losses at December 31, 2007, where the decline is considered temporary. The unrealized losses are recorded as a component of accumulated other comprehensive income.

	(thousands of $) 2007	
	Fair Value	Unrealized Losses
Bonds and debentures		
- Federal	$ 20,662	$ (67)
- Provincial	6,806	(59)
- Corporate	14,908	(243)
Pooled equity funds		
- Non-North American	1,508	(26)
	$ 43,884	$ (395)

As at December 31, 2007, the cost of 32 available for sale investments exceeded their fair value by $395,000. The unrealized losses on the bonds and debentures arose primarily from an increase in interest rates. For equities, unrealized losses are primarily the result of timing of the market prices or investment specific business environment factors. Since the Corporation has the ability to hold these securities until there is a recovery of fair value, which may be at maturity for bonds and debentures, these unrealized losses are considered temporary in nature.

The Corporation conducts a quarterly review to identify and evaluate investments that show indications of impairment. An investment is considered impaired if its fair value falls below its cost, and a write down is recorded in investment earnings when the decline is considered other than temporary. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost, financial condition and near-term prospects of the issuer, and the ability to hold the investment for a period of time sufficient to allow for any anticipated recovery.

6. PROPERTY, PLANT AND EQUIPMENT

The components of the Corporation's investment in property, plant and equipment, as well as related amortization, is as follows:

	(thousands of $) 2007			2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Building	$ 14	$ 14	$ –	$ 1
Computer hardware, system costs and other equipment	760	750	10	16
Total	$ 774	$ 764	$ 10	$ 17

Amortization for the year is $9,000 (2006 – $15,000) and is included in administrative expenses on the Statement of Operations.

7. REINSURANCE CEDED

The Corporation has reinsurance treaties with SGI CANADA and other third party reinsurers, which limit the liability of the Corporation to a maximum amount on any one loss as follows:

	(thousands of $) 2007	2006
General liability and property	$ 250	$ 150
Automobile – other	250	250
Automobile – liability	500	250
Catastrophe	250	250

The following table sets out the amount by which reinsurance ceded has reduced the premiums earned, claims incurred and commissions and premium taxes:

	(thousands of $) 2007	2006
Premiums earned	$ 3,201	$ 2,974
Claims incurred	3,197	2,275
Commissions and premium taxes	155	93

8. PROVISION FOR UNPAID CLAIMS

(i) Nature of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the year-end date.

Factors used to estimate the provision include: the Corporation's experience with similar cases, historical claim payment trends, the characteristics of each class of business, claim severity and claim frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a number of individuals, which necessarily involves risk that actual results may differ materially from the estimates. Changes in the estimates for the provision for unpaid claims are as follows:

	(thousands of $)	
	2007	2006
Net unpaid claims – beginning of year	$ 48,447	$ 59,216
Change in accounting policy (note 2)	(146)	–
Payments made during the year relating to:		
Prior year claims	(9,585)	(11,817)
Prior year service agreement claims	(3,215)	(3,231)
Prior year Facility Association claims	(331)	(211)
Deficiency (excess) relating to:		
Prior year estimated unpaid claims	(2,985)	(6,781)
Prior year estimated service agreement claims	(1,532)	1,588
Prior year estimated unpaid Facility Association claims	5	(320)
Net unpaid for claims of prior years	30,658	38,444
Provision for claims occurring in the current year	9,926	9,756
Provision for Facility Association claims occurring in the current year	256	247
Net unpaid claims – end of year	$ 40,840	$ 48,447

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has not been provided because it is not practicable to determine fair value with sufficient reliability.

(ii) Type of unpaid claims:
The provision for unpaid claims is summarized by type of claim as follows:

	(thousands of $)					
	2007			2006		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Automobile	$ 52,572	$ 24,146	$ 28,426	$ 57,431	$ 23,738	$ 33,693
Property	3,334	702	2,632	2,369	556	1,813
Liability	4,564	869	3,695	2,255	250	2,005
Service agreement (note 11)	4,518	-	4,518	9,297	–	9,297
Facility Association (note 16)	1,569	-	1,569	1,639	–	1,639
Total	$ 66,557	$ 25,717	$ 40,840	$ 72,991	$ 24,544	$ 48,447

(iii) Structured settlements
The Corporation settles some long-term disability claims by purchasing annuities from various financial institutions. The settlements legally release the Corporation from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Statement of Financial Position. However, as part of the settlement, the Corporation provides a financial guarantee to the claimants, in the event the financial institutions default on the scheduled payments. As at December 31, 2007, no information had come to the Corporation's attention that would suggest any weakness or failure in the financial institutions from which it has purchased the annuities. Consequently, no provision for credit risk is required. The net present value of the scheduled payments as of the year-end date is $1,245,000 (2006 - $1,427,000).

9. SHARE CAPITAL

Authorized:
Unlimited number of common shares with no par value.

	(thousands of $)	
Issued and fully paid:	2007	2006
10,000 common shares	$ 1,000	$ 1,000

10. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	(thousands of $) 2007	2006
Interest	$ 2,920	$ 2,455
Premium financing	820	803
Pooled equity funds	743	703
Net realized gain (loss) on sale of investments	(92)	112
Total investment earnings	$ 4,391	$ 4,073

11. SERVICE AGREEMENT

During 1998, the Corporation issued an insurance policy to a vehicle rental company (the rental company). The policy provided bodily injury liability coverage on the rental company's vehicles being driven by its customers. The rental company paid the Corporation an annual premium under this policy between $100,000 and $120,000. At the same time, the Corporation made an agreement that allowed the rental company to settle and pay all claims submitted by its customers. Because the insurance coverage was in the name of the Corporation, the rental company was required to report to the Corporation quarterly on the status of all reported claims and the provision for unpaid claims. As security to guarantee the provision for unpaid claims, a trust account was to be maintained in an amount that would meet the funding of the outstanding liabilities related to the policy.

The agreement with the rental company expired on March 31, 2005. Subsequent to the expiration of the contract, the rental company filed for voluntary receivership. During the receivership proceedings, it was determined that the rental company had not reported claims correctly to the Corporation, nor had it deposited the correct amounts in the trust account. The Corporation has since collected the balance held in the trust account of $1,235,000. Review of the outstanding claims during the year resulted in a reduction of $1,532,000 to the provision for unpaid claims and has been included in operations in the current year as an excess from service agreement (2006 – deficiency of $1,588,000).

The Corporation is continuing legal action against certain of the parties involved to recover the shortfall related to this service agreement. Any recovery will be accounted for in the year of receipt.

12. INCOME TAXES

The Corporation's provision for income taxes (recovery) is as follows:

	(thousands of $) 2007	2006
Current	$ –	$ –
Future	1,189	(442)
Total income taxes (recovery)	$ 1,189	$ (442)

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes.

The reasons for the differences are as follows:

	(thousands of $) 2007	2006
Income (loss) before income taxes	$ 8,206	$ 9,910
Combined federal and provincial tax rate	36.12%	36.12%
Computed tax expense based on combined rate	$ 2,964	$ 3,579
Increase (decrease) resulting from:		
Changes in enacted tax rates	117	–
Non-deductible expenses for tax purposes	11	9
Other	(7)	–
Valuation allowance	(1,896)	(4,030)
Total income tax expense (recovery)	$ 1,189	$ (442)

The tax effects of temporary differences that give rise to significant portions of the future income tax assets and future income tax liabilities are presented below:

	(thousands of $) 2007	2006
Future income tax assets		
Tax loss carryforward	$ 1,993	$ 4,927
Provision for unpaid claims	1,092	1,167
Other	19	25
	3,104	6,119
Less: valuation allowance	–	(1,896)
Total future income tax assets	3,104	4,223
Future income tax liabilities		
Investments	732	776
Unpaid claims recoverable from reinsurers	424	316
Total future income tax liabilities	1,156	1,092
Net future income tax assets	$ 1,948	$ 3,131

The Corporation has non-capital loss carryforwards of approximately $5,949,000 (2006 – $13,639,000) that expire in 2015.

13. CHANGE IN NON-CASH OPERATING ITEMS

The change in non-cash operating items is comprised of the following:

	(thousands of $) 2007	2006
Accounts receivable	$ 2,568	$ 765
Deferred policy acquisition costs	(171)	(500)
Reinsurers' share of unearned premiums	(12)	(95)
Unpaid claims recoverable from reinsurers	(1,173)	201
Accounts payable	(3,354)	132
Amounts due to reinsurers	(327)	238
Unearned reinsurance commissions	14	19
Unearned premiums	378	2,529
Provision for unpaid claims	(6,434)	(10,970)
	$ (8,511)	$ (7,681)

14. FAIR VALUE

The fair value of financial assets and liabilities, other than investments (notes 2 and 5), unpaid claims and unpaid claims recoverable from reinsurers (notes 7 and 8), approximate carrying value due to their immediate or short-term nature.

15. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan, and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Transactions and amounts outstanding at year-end are as follows:

Category	(thousands of $) 2007	2006
Accounts receivable	$ 8	$ 7
Investments	988	888
Investment earnings	52	54

SGI CANADA provides management and administrative services to the Corporation as well as being one of its reinsurers (note 7). Administrative expenses incurred by SGI CANADA and charged to the Corporation were $1,213,000 (2006 – $1,088,000) and accounts payable are $919,000 (2006 – $65,000). Reinsurance ceded to SGI CANADA has reduced premiums earned by $2,173,000 (2006 – $1,968,000) and claims incurred by $3,210,000 (2006 – $2,146,000).

In 2003, the Corporation entered into an agreement with SGI CANADA, the Corporation's ultimate shareholder, whereby SGI CANADA would transfer to the Corporation, net amounts recoverable after December 31, 2002, on reinsurance for adverse loss development on the Corporation's losses occurring prior to April 30, 2001. The Corporation will reimburse SGI CANADA for any costs it may incur under the reinsurance contract. At December 31, 2007, $3,447,000 (2006 – $3,519,000) was accrued under this reinsurance policy.

Other related party transactions are disclosed separately in the notes to the financial statements.

16. FACILITY ASSOCIATION PARTICIPATION

The Corporation is a participant in automobile residual market and risk-sharing pools, whereby companies in the industry are required by regulation to provide automobile insurance coverage to high-risk insureds.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	(thousands of $)	
	2007	2006
Gross premiums written	$ 316	$ (115)
Net premiums earned	$ 341	$ 204
Claims incurred	388	52
Commissions	25	12
Premium taxes	10	6
Administrative expenses	86	70
Total claims and expenses	509	140
Underwriting profit (loss)	(168)	64
Investment earnings	89	59
Net income (loss)	$ (79)	$ 123
Facility Association receivable	$ 1,548	$ 1,657
Unearned premiums	171	196
Provision for unpaid claims	1,569	1,639
Facility Association payable	1,542	1,520

17. COMMITMENTS AND CONTINGENCIES

The Corporation has a lease for its office premises expiring December 31, 2008, at an annual rent of $186,000.

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business. The Corporation is of the opinion that this litigation will not have a significant effect on the financial position or results of operation of the Corporation.

18. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2006 balances have been reclassified to conform to 2007 financial statement presentation.